John R. Gregg

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How did we get here?

A brief history of Indiana's finances

Gov. Frank O'Bannon called a special legislative session this year to deal with escalating problems in the state budget. Indiana used to have a budget surplus. What has changed?

After the longest economic expansion on record in the 1990s, Indiana's coffers were full to overflowing. Legislators opted to cut taxes rather than keep such a large surplus, and returned over $1.5 billion in taxes since 1996. Those cuts aided homeowners, renters, the working poor, senior citizens, and others in our state.

By January of 2000, though, the national economy was slowing. Within a few months it was clear that our country's finances were taking a turn for the worse. With Medicaid spending on the rise, 17 states faced budget shortfalls by Fiscal Year 01, Indiana among them. Last July Gov. O'Bannon ordered $113 million in one-time cuts in an effort to address the growing budget deficit.

Imagine if your paycheck was 14% smaller this month.

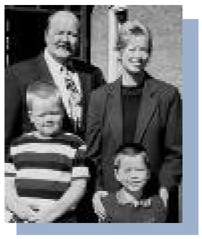
The terrorist attacks last September only exacerbated the situation. Consumers spent less. Business slowed, cutting production and cutting jobs. That meant less money flowed into the state accounts from sales taxes, inventory taxes and individual and corporate income taxes.

In May of this year, Indiana revenue collections was 14.7 percent below expectation. Imagine if your paycheck were 14 percent smaller this month. You would find ways to cut back, and then you would re-evaluate your situation.

Gov. O'Bannon made a total of $949 million in spending cuts in Fiscal Year 02, but our state was still in the red. The legislature met to re-evaluate. House Bill 1001 is the result.

Special session ends

New legislation addresses several issues facing state



Summer, 2002

Dear Friends:

In the final days of the recent special session, members of the General Assembly passed a bipartisan program that will significantly impact the lives of most people in this state.

This plan, contained in House Bill 1001, attempts to answer several serious questions facing Indiana. It addresses the impact of court-ordered reassessment on property owners and the funding shortages that exist for several state programs. Also, it restructures our state's tax code to provide more economic incentives to help create more jobs for Hoosiers. (See the back of this card for more detail.)

The most significant part of House Bill 1001 is the relief it will provide for home, farm and business owners from the court-ordered property reassessment. For homeowners, most of this relief will come through shifting 60 percent of school operating costs to the state, implementing a standard deduction of $35,000 on all homes and increasing the homestead credit to 20 percent. These changes will help reduce residential property tax rates by double digits.

The legislation also attempts to help working families on lower incomes by increasing the earned income tax credit. Renters will receive an increase in the deduction they can take on their state income tax returns.

Property tax reform

- Increases Homeowners Exemption from $6,000 to $35,000
- Eliminates 60 percent of School General Fund Levy through state-paid Property Tax Replacement Credit
- Increases Homestead Credit from 4 percent to 20 percent
- Establishes new 20 percent Property Tax Replacement Credit on all individual and business real property

House Bill 1001 makes significant strides in changing our state's tax code to encourage economic development. We will eliminate Indiana's corporate gross income tax on January 1, 2003, and phase out the inventory tax over the next five years. Business leaders consider these changes cru cial to expand current businesses and entice companies to locate here and create jobs fo Hoosiers.

Finally, the bill makes several changes in the state's gaming industry. Riverboat operators will be given the option of allow ing continuous access to casinos, a process known as dockside gaming. Additionally, this bill creates a revenue sharing plan that will provide all Indiana counties with a portion of the proceeds generated by the riverboats.

There are tax increases included in this legislation. The sales tax will increase from 5 to 6 percent; the ciga rette tax will increase to 55.5 cents per pack; and the gas tax will rise to 18 cents per gallon.

I encourage you to study this proposal and how it will impact you and your family

Please continue to contact me with any comments and concerns regarding state government.

Sincerely,

Economic development for Indiana

House Bill 1001 assists economic development across Indiana, and it couldn't come at a better time. In recent years Indiana has lost more manufacturing, retail and service jobs than anywhere else in the United States, and that certainly has had a negative economic impact in our state.

How do we create more jobs for Hoosiers? We must create an environment where businesses will want to come to Indiana, and where existing companies will want to expand their operations.

House Bill 1001 addresses these concerns in several ways:

• It eliminates the unpopular inventory tax over a five-year period. Indiana is one of the few states in the country that still enacts this penalty on businesses.

• It also removes both the corporate gross income tax and the corporate supplemental net income tax. It replaces these taxes with a tax on a company's adjusted gross income.

Restructuring the tax burden for employers is only one part of the puzzle. We also must help companies by creating an environment where they can take advantage of the cutting edge technology that enables our state to be competitive in a changing global economy. Several provisions in House Bill 1001 help achieve this goal:

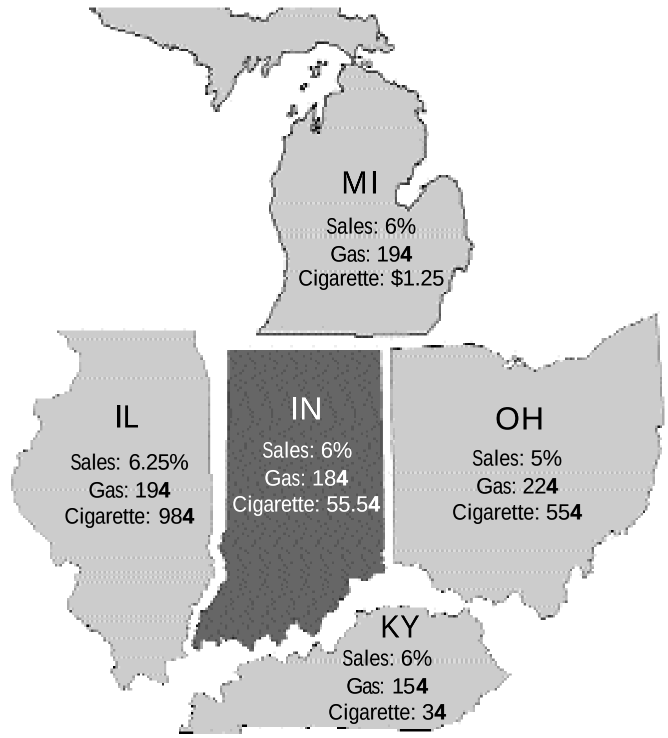
• It allocates tax credits to companies that provide venture capital to startup firms.

• It doubles the state's research and development tax credit to 10 percent.

• It provides $30 million for the 21st Century Research and Technology Fund for 2003 and 2004.

The impact of these changes will be felt in the years to come. Business owners will think twice about relocating to another state. Companies will find an economic profile dedicated to creating well-paying jobs. They will be even more inclined to take advantage of the Hoosier work ethic that has made us the envy of other states.

How does Indiana rank with its neighbors?



Data from the Federation of Tax Administrators

Contact Speaker Gregg

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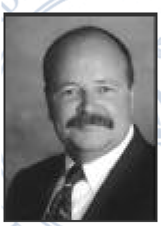

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